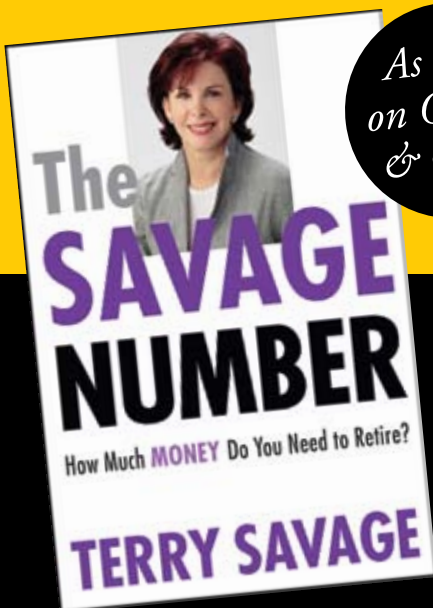


**S.T.A.R.T.**®

Summer 2008

**SMART**

# The Savage Approach to Saving for Retirement.



*As seen  
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Learn what you need to know while saving for retirement from guest speaker Terry Savage, author of *The Savage Number: How much money do you need to retire?*

**Complimentary Event, Dinner & Book Signing**  
Hosted by HOOSIER S.T.A.R.T. and Tim Berry, State Auditor

**October 16, 2008, 5-8 p.m.**

**Marriott Hotel, Downtown Indianapolis**

**For more information or assistance please contact:**

Mischon Dahlstrom, Program Coordinator, VMS

**Phone:** 317.805.6600 Ext. 213 or **E-mail:** [mischon.dahlstrom@vmsconnect.com](mailto:mischon.dahlstrom@vmsconnect.com)

**Register to attend:** [www.seeuthere.com/VMS/October162008](http://www.seeuthere.com/VMS/October162008)



## Watching the Indexes

### *Comparing your funds to their benchmarks*

To get a sense of how a fund is performing, you can compare it to an index—a group of stocks chosen to represent a particular segment of the market. Here are several to consider.

**The Dow Jones Industrial Average** (often called the Dow) tracks the share prices of 30 leading domestic companies. If you own a large-cap stock fund (large-cap meaning any company with a market value of more than \$1 billion), you may want to follow the Dow's performance.

**The S&P 500® Index** tracks the share prices of 500 large companies. Although the Dow also focuses on large U.S. companies, the S&P 500 tracks a wider range of firms and can be a more comprehensive gauge of the stock market's overall performance.

**The Nasdaq Composite Index**, made up of more than 4,000 stocks traded on the Nasdaq Stock Exchange, is considered a barometer of the technology sector—about two-thirds of its constituents are technology companies.

**The Wilshire 5000 Index** tracks the performance of more than 7,000 of the most active stocks in the U.S. market. It provides a broad measure of overall U.S. stock performance and could be a good comparison for any domestic stock fund, as it includes the securities of the S&P 500, the Dow and the Nasdaq.

**The Russell 2000 Index** measures the performance of 2,000 small-cap U.S. companies. It is considered a small-cap stock benchmark.

**The Morgan Stanley Capital International Europe, Australasia and Far East (MSCI EAFE) Index** follows the values of foreign stocks in developed markets. It tracks approximately 1,000 companies in Europe, Australia, Asia and the Far East. It serves as a benchmark for international funds.

**The Lehman Brothers Aggregate Bond Index** includes more than 6,000 government and corporate bonds; it is considered a benchmark for bond performance.

As you're measuring your funds against their indexes, try to remember your long-term investing goals, too. Markets move up and down all the time, so try not to be shaken by short-term swings. 🌸

## Coming to Terms with Rising Prices

### *How purchasing power can change over time*

A dollar today doesn't buy what it used to. And a dollar tomorrow won't buy what it does today. You can't predict future inflation rates, but you can develop investing strategies to potentially diminish their effects on your retirement savings.

### **What Is Inflation?**

Inflation is the rate at which the general level of prices for goods and services rises, as measured by the Consumer Price Index (see "Keeping Up With Important Economic Data" on the previous page). The key factor is the change in prices from year to year. That difference is known as the inflation rate.

### **How It Works ... Against You**

Let's assume an annual inflation rate of 3.1%, the average annual rate of inflation since 1926.<sup>1</sup> So if you're planning to live on \$30,000 per year (in today's dollars), you'll actually need \$30,930 to do so if you retire one year from now. Assuming that the inflation rate stays the same, if you retire 20 years from now, you'll need \$55,245 in the year you stop working—a far cry from \$30,000. Also, consider that if your investments grow at a rate of 5% per year and inflation is about 3%, your real investment return would be only 2%.

### **Ready for Combat**

What can you do to fight inflation's negative influence? Try to invest for growth. Historically, stocks, as an

asset class, tend to outperform inflation, although past performance is not a guarantee or prediction of future results. Other asset classes—bonds and cash equivalents—may not grow at the same rate as stocks, but they can provide relative stability and less risk. For example, stocks have returned 10.4% since 1926, almost double the 5.5% return of long-term government bonds over the same period. Cash, as represented by U.S. Treasury bills, has returned just 3.7%.<sup>1</sup>

### **A Careful Approach**

How you allocate your investment dollars should be based on the length of time you have until you retire, as well as your tolerance for risk. If you're willing to tolerate market swings and won't be tapping your nest egg for many years, you may consider devoting as much as 80% of your retirement savings plan contributions to stock funds and the remainder to bond and cash equivalent funds.<sup>2</sup> But if retirement is just a few years away, you won't have as much time to recover from any short-term market swings—so you may consider a more conservative allocation of 60% to stock funds. And remember that inflation will continue even after you retire, so you may want to keep some stock investments, no matter how old you are.

Inflation is always present, but you may be able to diminish its effects on your savings with careful planning. A healthy exposure to stock funds may help your savings grow faster than inflation, potentially putting you on the path to a more secure retirement. 🌸

<sup>1</sup> Stocks, Bonds, Bills, and Inflation 2008 Yearbook, 2008 Ibbotson Associates, a subsidiary of Morningstar, Inc.

<sup>2</sup> Representatives of GWFS Equities, Inc. are not registered investment advisers, and cannot offer financial, legal or tax advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

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